



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, April 20, 2012
8:30 A.M., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:34 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Manos, Vice-chair
Mr. Tom Connelly
Mr. Chris Harris
Professor Dennis Hoffman (arrived at 8:35 A.M.)
Mr. Kevin McCarthy
Mr. Steve Zeman
Mr. Michael Townsend (via teleconference)

A quorum was present for the purpose of conducting business.

2. Presentation Regarding the PRIDE Results Award

Professor Dennis Hoffman arrived.

Mr. Paul Matson, Director, recognized the following nominees for the PRIDE Award for Results: Nick Ponder, Brian Crockett, Donna McNally, Jean Langston, John Davis, John Mathine, and the FSD HI Accounting Team, consisting of Myrna Cano, Robert Peterson, Cecilia Leary, Sandra Miranda, and Kathy Evans. They were nominated by staff who feel they exemplify the following PRIDE qualities of results:

- Meet goals and objectives
- Satisfy customers
- Complete projects
- Attain individual accomplishments
- Produce quality work products
- Successfully manage risks

Mr. Matson presented the PRIDE Award for Results to the award winner, Brian Crockett.

Mr. David Byers, Chair, introduced a guest in the audience, Mr. Mike Smarik. He noted Mr. Smarik has been appointed by the Governor to replace him as the State Representative Trustee

on the ASRS Board. Mr. Matson said there have been two additional appointees who have not yet had their hearings.

Mr. Chris Harris requested Agenda item #3, the approval of the Minutes, be moved to the end of the meeting.

3. Presentation, Discussion and Appropriate Action Regarding the 2012 Legislative Session

Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding the ASRS 2012 legislative initiatives and legislative proposals by other organizations that affect the ASRS. Ms. Sorensen presented the bill tracker, dated April 19, 2012, summarizing ASRS 2012 legislative initiatives.

Ms. Sorensen noted HB2088 had been vetoed, but ASRS staff were working with the Governor's Office and Legislative Staff to find another bill on which to amend most of the provisions of HB2088. Ms. Sorensen said the Governor's main concern was the expansion of the investments contracts' exemption from the State Procurement Code.

Mr. Kevin McCarthy asked whether the ASRS should provide a response to the Governor's Office expressing concern about transferring authority from the ASRS Board to staff. Mr. Matson indicated that a response would be considered with trustee input and after talking with the Executive branch. Mr. Tom Connelly and Mr. Harris agreed that the procurement code exemption status is a very important issue affecting the hiring and termination of investment managers. Mr. Byers concurred, commenting the ASRS should ensure the Governor understands all the ramifications.

Ms. Sorensen said Tom Connelly was re-nominated Public Member; Mike Smarik nominated State Representative; Professor Dennis Hoffman, Public Member; Brian McNeil, Retired Member; Jeff Tyne, Political Subdivision Member.

4. Presentation, Discussion and Appropriate Action Regarding Appeal Rights with Respect to the Contribution Rate Split Judgment

Mr. Matson addressed the Board regarding appeal rights with respect to the contribution rate split judgment, summarizing the background. In 2011, SB 1614 amended the ASRS retirement and long-term disability contribution rate split from employer-employee 50/50 to 47/53 effective July 1, 2011.

On April 12, 2012, the Judge determined the retirement contribution rate split could not be amended for current ASRS members. Mr. Matson said the decision, effective as of April 12, 2012, does not affect the contribution rate split for new employees hired as of July 1, 2011, or the LTD rate for all employees. The decision does not address refunding employees the 3% taken between July 1, 2011 and April 12, 2012.

Mr. Matson explained there are 30 days for the Board to decide whether to appeal. He said that although ASRS was a defendant, it sees itself as an administrator, the processor of data on this issue. If the ASRS successfully appealed, there would be significant actuarial costs, approximately \$100 million to the Trust Fund. Mr. Matson noted there is a bill being considered at the Legislature that seems to have Executive Office support and which would revert the contribution rates back to 50/50 retroactively for all employees.

The Director suggested the Board did not need to make a decision unless it wanted to appeal. Trustees discussed the options and implications of possible decisions.

5. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Matson presented the Director's Report. He said no infractions were found during the Internal Audit review of internal investment trade transactions during March. He presented the Operations Report and explained reallocations were made which improved call center timeliness. Professor Dennis Hoffman asked if there was an inverse correlation between the Phone Timeliness rising and the Email Timeliness falling. Mr. Dave King, Assistant Director, Member Services Division, confirmed there was due to staff having been reallocated. Mr. Matson noted call center reallocations will continue to be monitored over the next six months.

6. Presentation and Discussion with Respect to Informational Updates from the Operations Committee Meeting on April 26, 2012

Mr. Steve Zeman, Chair, Operations Committee (OC), provided information on the upcoming April 26, 2012 OC meeting. Mr. Zeman discussed:

- a. ASRS Web Development
- b. External Security Audit– will be moved to June
- c. Partial Lump Sum Payments on Service Purchase
- d. Recent ASRS Governance Audit

Mr. Zeman said the Update of the External Financial Auditor Contract will not be discussed at the next OC meeting, but will be a topic for the May Board meeting.

7. Presentation and Discussion with Respect to Informational Updates from the External Affairs Committee Meeting on April 6, 2012

Mr. Michael Townsend, Chair, External Affairs Committee (EAC), provided an update on the April 6, 2012 EAC meeting, noting the 2012 Legislation had been discussed earlier during the Board meeting. The next EAC meeting will take place May 4, 2012.

8. Presentation and Discussion with Respect to Informational Updates from the Investment Committee Meeting on April 16, 2012

Mr. Tom Connelly, Chair, Investment Committee (IC), provided an update on the April 16, 2012 IC meeting. He discussed the ASRS Asset Allocation Study, noting it would also be a topic at an upcoming IC meeting. Mr. Dokes discussed:

- a. ASRS Asset Allocation Study
- b. Internally Managed Equity (E) and Fixed (F) Portfolios Trade Execution and Broker/dealer Counterparty Analysis
- c. Investment Management Division's (IMD) House Views
- d. Director's Asset Class Committee Update: Private Markets Committee and Public Markets Committee

The next Investment Committee meeting will take place June 11, 2012.

9. New Agenda Items

No requests were made.

10. Call to the Public

No members of the public requested to speak.

11. Approval of the Minutes of the March 16, 2012 Public Meeting of the ASRS Board

Mr. Chris Harris suggested the March 16, 2012 Minutes be amended regarding the ASRS U.S. and International Equity Asset Class Review to reflect that he requested a presentation be made at the Investment Committee regarding the internally managed portfolios.

Motion: Mr. Steve Zeman moved to approve the minutes of the March 16, 2012 Public Meeting of the ASRS Board as amended. Mr. Dave Byers seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

Mr. Byers said this would likely be his last ASRS Board meeting. He thanked Board members and staff, saying it had been great to work with everyone and it is a great Board. He thanked the members who regularly attend the meetings. Mr. Byers reminded trustees to always remember their loyalty is to the members and the Trust Fund.

12. The next ASRS Board meeting is scheduled for Friday, May 18, 2012, at 8:30 A.M., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

13. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 9:27 A.M.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Paul Matson
Director

Date